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ARAB STATES - ISRAEL:

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Military ground activity over the weekend was generally light on all fronts, with sporadic mortar, tank, anti-tank, artillery, and light arms fire reported. The heaviest action reportedly occurred on the Syrian front where Damascus claimed to have repulsed in "fierce fighting" several attempts by Israel to improve its field positions, inflicting heavy losses on the Israelis. In Jerusalem, a military spokesman downplayed the fighting, calling it the "usual daily exchange of fire," but he admitted Israel suffered three wounded there yesterday.

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The US Consul in Jerusalem reports that developments in the Israeli-occupied West Bank of Jordan are taking on the characteristics of the 1967-68 period, when women and students led widespread public disorders. According to the consulate, Israeli authorities on December 15 arrested a number of women demonstrators, including the wife of a former Jordanian cabinet minister. The demonstrators were protesting in front of the International Red Cross office in East Jerusalem against Israel's deportation to Jordan last week of eight West Bank citizens for pro-fedayeen activities. The Israeli West Bank military government on December 15 also ordered the indefinite closure of the 250-student Anglican Arab College, the West Bank's only significant college and long a center of Palestinian nationalist activity. The consulate believes that these latest Israeli efforts to forestall further trouble are, in fact, virtually certain to lead to additional disorders.

In an official statement issued shortly before Secretary Kissinger's arrival yesterday, the prime minister's office in Jerusalem reiterated that Israel will not talk with Syrian representatives at the Geneva peace conference, now scheduled to convene on December 21, until Damascus provides it with a list of Israeli POWs and allows International Red Cross representatives to visit them. [REDACTED]

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King Faysal, meanwhile, is said to be adamant that East Jerusalem revert to Arab control. The political officer of the Saudi Embassy in Cairo informed an official of the US Interests Section over the weekend of Faysal's view that an Arab flag--Jordanian or Palestinian--alone must fly over East Jerusalem. The King, he claimed, will not accept any "open city" plan. The Saudi official cited Faysal's hopes that he has now convinced Secretary Kissinger of the Arabs' moral as well as legal right to the city.

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EUROPEAN COMMUNITIES: The EC summit may have given a new impetus to political cooperation and to movement on several important EC issues, including the laying down of guidelines for early action on energy. Much bickering is likely, however, before the energy measures, in particular, will stand as a meaningful show of EC solidarity in the face both of the community energy crisis and the Arab oil threat. The weekend summit itself was reportedly characterized by considerable mutual recrimination, especially between the smaller and larger EC members, and was dominated, at least in its public aspect, by the presence in Copenhagen of four Arab foreign ministers.

On a schedule that begins with the EC Council meeting today and extends into February, the community is slated to empower the Commission to draw up an inventory of energy resources, examine repercussions of the supply situation on the EC's economy, and make proposals for a common energy market. The Commission's mandate pointedly omits any explicit mention of oil sharing--presumably still anathema to France and Britain--and leaves open the possibility of considerable variation among national measures to limit energy consumption.

The program, nevertheless, marks a new commitment toward solving longer range aspects of the energy problem, including accelerated research on new sources of energy and creation of a European uranium enrichment capacity. Although the statement issued at the summit's conclusion suggests no date for beginning negotiations on comprehensive cooperation arrangements with oil-producing countries, the importance of such talks was affirmed. A response to Secretary Kissinger's call for an Energy Action Group was indicated only indirectly by referring to the usefulness of studying the consumer countries' problems "within the framework of the OECD."

The leaders agreed, as expected, to meet more frequently--although not "regularly," as Pompidou had suggested--and to improve procedures for meeting

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in a time of crisis. A January 1, 1974 date for establishing the Regional Development Fund--of great importance to Britain, Italy, and Ireland--was confirmed. This week's Council session will have to iron out remaining differences over the fund's size and how its monies will be distributed. Injunctions for progress on other aspects of economic integration were vague and it remains to be seen whether compromises may have been made in private that will unblock already tardy programs.

By their presence in Copenhagen, the Arab ministers--from Algeria, Tunisia, Sudan, and the United Arab Emirates--succeeded in publicizing the pressure on the Europeans to aid the Arab cause, but they apparently got no more from the Nine than a reiteration of the declaration made by the EC in November. The Nine, moreover, conveyed publicly the substance of earlier diplomatic representations cautioning the Arabs about the negative effect of the Arab oil measures on European public opinion. [REDACTED]

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JAPAN: In a statement that could easily generate domestic controversy, Tanaka has raised the issue of the vulnerability of Japan's defense establishment in a world of uncertain oil supply.

According to a transcript of recent remarks before the Budget Committee of the Diet's Upper House, Tanaka mentioned the possibility of substituting "nuclear-powered submarines or nuclear-powered ships" for ships powered by oil in meeting future Japanese defense needs. Though hedging his response to questioning by opposition Diet members, Tanaka stated, "I do not think that it will do for us to build up our defense forces on the premise that they can only rely on oil."

Tanaka's comments have generated little immediate response in Tokyo despite the nervous reaction that usually follows any high-level pronouncement on nuclear matters. The defense establishment, which has been compelled to accept substantial cutbacks in its fuel allocations, is doubtless sympathetic to the Prime Minister's views. Significant public and political support seems unlikely to materialize, however, without obvious change in Japanese suspicions toward nuclear-power facilities of almost any type. Japan's first nuclear-powered commercial ship (the Mutsu), for example, has had its sea trials blocked for over a year by fishing interests who fear the ship will contaminate adjacent waters.

In the case of naval vessels, domestic opposition would be more substantial and widespread, at least until a worldwide switch to nuclear-powered ships is clearly in train. Long-standing arguments against strengthened defense forces would be reinforced by the contention that nuclear propulsion would greatly extend the range of Japanese naval units, putting them in the category of "offensive" weaponry in the eyes of defense critics.

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Tanaka's precise motives in commenting on the energy needs of the nation's defense forces are not clear, but may have been designed to reinforce his current effort to secure Diet ratification of the Nuclear Nonproliferation Treaty in 1974. The Prime Minister could argue that ratification would improve Japan's chances of securing more of the technology involved in design and production of nuclear propulsion machinery. [REDACTED]

THAILAND: The King's appointment on December 10 of a broadly based assembly that will choose a new national legislature should solidify public support for the Sanya government.

The new 2,346-member "national general assembly" is charged with selecting from its membership a new national legislative assembly. The King's list, while not excluding the military, includes Thai from every occupation and promises to broaden popular participation significantly in the emerging civilian political system.

The King's action precipitated the resignation of nearly all members of the old Thanom-appointed legislative assembly, a military-dominated relic of the ousted regime that had been the target of growing public criticism. Leaving nothing to chance, the King formally dissolved the old assembly in a royal decree yesterday.

The decision of the King to bring his still unassailable prestige to bear in this manner was unexpected. Even Prime Minister Sanya claims not to have had foreknowledge. Army Chief Krit's reported suggestion--a day before the King's announcement--that it was the patriotic duty of military members of the old legislative assembly to resign indicates, however, that he was aware of the King's plans and had given his tacit support.

The King's announcement contained no hint as to how soon a legislative assembly will be chosen by the new electoral body, but according to unconfirmed press reports it may be selected as early as December 18. When it is formed, the new legislature's first task will be ratification of a new constitution that is now being drafted.

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CHINA: The Chinese are taking a more favorable attitude toward the participation of foreign firms in developing China's off-shore oil deposits. [REDACTED]

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[REDACTED] Peking may consider cooperative schemes to develop oil deposits in the Po Hai Gulf.

China earlier had turned aside foreign proposals with comments that indicated unyielding opposition to joint development ventures. This opposition presumably has been softened by the prospect of earning foreign exchange from oil exports, gaining technology through association with foreign firms, [REDACTED]

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China is emerging as an oil surplus country at an opportune moment. As world energy shortages continue, the Chinese will be spared the supply problems that trouble oil-importing countries, and oil exports will provide foreign exchange to help modernize the Chinese economy.

Crude oil output in China this year will reach approximately 38 million tons, compared with 7.5 million in 1965. China's oil industry has advanced rapidly over the last four years; new fields were discovered, exploration was pushed, and output at producing fields was raised. The Chinese effort to find new fields was reportedly so successful that wells were frequently capped off because transport and handling facilities could not keep pace.

The new oil supplies made possible a number of adjustments in China's Fourth Five-Year Plan (1971-75), especially in economic activities dependent on energy supplies and in the petrochemical industry, which is crucial to agricultural modernization and to expansion of consumer goods output. The plan now allows for exporting a small but growing quantity of petroleum that will earn foreign exchange to help pay for larger imports of transportation equipment, petrochemical complexes, and other high-technology items required for industrial modernization.

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China has imported large amounts of transportation equipment and has a new record this year in purchases of whole plants, most of them petrochemical. Such spending shows that the successful performance of the oil industry has become a factor in Chinese planning for the 1970s. To ensure growth in the petroleum industry, the Chinese in recent months have spent millions of dollars for foreign oil equipment and technology and are negotiating for more.

Further increases in oil exports will depend on China's success in improving its inadequate transportation and handling facilities. Difficulties in this area may result in failure to meet export commitments to Japan of one million tons this year. If transportation and handling problems are resolved, China could export some 6-10 million tons of oil annually by 1976.

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CANADA: Ottawa has stated that the recently enacted Foreign Investment Review Act is not designed to exclude foreign investment, but to channel it to provide "significant benefits" to Canada. The new legislation represents a compromise between economic nationalists, who are concerned over the extent of US ownership of Canadian resource, and manufacturing industries and provincial interests who wish continued foreign investment aid in development.

The impact of the Act will depend on how it is applied by the Foreign Investment Review Agency created by its provisions. The Agency will screen applications for investment in Canada by foreign interests and report to the Federal Cabinet, which will make final decisions. The Review Agency's recommendations will be determined in great part by the viewpoints of its members. The conflict between economic nationalists and provincial interests could reappear within the Agency. It is not clear from information now available whether companies have recourse through the courts to appeal an adverse decision on an application, although court action is provided to force companies that have agreed to provide "significant benefits" to Canada to comply with their commitments.

The Act is to be implemented in two parts. The first part, to be in effect by June 1974, provides for screening take-overs of Canadian firms with assets of at least \$250,000 or annual sales of \$3 million or more. A take-over is defined as the purchase of at least 5 percent of the voting shares of a public corporation or of a 20-percent interest in a private firm. The Review Agency is directed to consider the following criteria in assessing applications:

- effect on economic activity in Canada;
- degree of Canadian participation;
- effect on competition;
- compatibility with national industrial and economic policies.

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The second part of the Act, expected to become effective by the end of 1974, will apply the same criteria to new investment by foreign interests and to the expansion of existing foreign-controlled companies into new areas of business. This part of the Act will have much the greater impact on foreign investment. The greater part of the \$43 billion of foreign corporate assets in Canada, of which the US controls 80 percent, represented new investment rather than take-overs.

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FOR THE RECORD*

Turkey: In a nation-wide address on December 15, Turkish President Koruturk called on caretaker Prime Minister Naim Talu to form a national coalition government embracing all parties that have at least ten deputies in parliament. The government will serve until early elections can be held. The President recommended revision of the election laws, lest new elections yield the same results as those on October 14, in which no party received a mandate. Senator Talu is an independent; the President made no mention of whether all eligible parties had agreed to serve under Talu in a coalition, according to a State Department report. [REDACTED]

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USSR-Cuba: Communist sources in Moscow are telling Western press representatives that party chief Brezhnev has postponed his trip to Havana until after the middle of January. Brezhnev had been scheduled to go to Cuba late this month, to be on hand for the early January celebrations marking the fifteenth anniversary of Batista's flight from Cuba. [REDACTED]

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**These items were prepared by CIA without consultation with the Departments of State and Defense.*

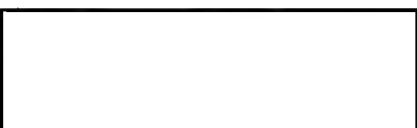
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